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The Honorable Charles D. Nottingham  
Chairman  
Surface Transportation Board  
395 E. Street, SW  
Washington, D.C. 20423

Re: Railroad Service Demands – CSX Transportation Inc. Fall Peak Planning

Dear Chairman Nottingham:

In response to your request, this letter provides detailed information on the steps that CSX Transportation, Inc. (CSXT) is taking to prepare for the 2008 Fall Peak and beyond.

### Demand

While CSXT and the industry are seeing some softness in demand, the longer-range fundamentals of rail growth remain firmly in place. CSXT is moving rapidly forward with its strategic plans to leverage long-term growth with consistent, reliable operations and significant investments in additional track capacity, locomotives and rail cars, as well as staffing that meets current and forecasted demand. The trends that underlie future rail growth remain constant: population increases, more offshore manufacturing as well as domestic industrial production, relief for overcrowded highways, and the well-documented challenges of the trucking industry. CSXT is prepared to do its part to meet those challenges, but urges federal policymakers to continue to consider the fact that stronger railroad earnings support capacity expansion. Policymakers should continue to reject misguided calls to re-regulate the industry through legislation or administrative action.

CSXT and most other Class I railroads are experiencing softness in volumes in certain markets compared to 2007. Markets related to housing construction, such as lumber, other building products, and rock shipments are down significantly with no recovery in sight. Intermodal shipments are about on a par with 2007. The change in the value of the U.S. dollar has brought about growth in export businesses. Demand for steel and pipe has been strong all year and it is expected to continue to grow long term. Coal volumes are strong, particularly supported by very robust demand for export coal. Ethanol continues to be an area of growth and is expected to exceed last year's shipments. The demand for ethanol has spurred growth for long haul phosphate traffic on CSX. Renewable fuels and the company's coal, coke, and iron ore businesses and fertilizer are among those that will benefit from further improvements in capacity and performance.

As you know, consumer demand has evolved over the years with a less pronounced Fall Peak in the transportation sector. This is due, in part, to a marked change in general public buying patterns that have

extended purchases over a longer period, and the evolution of shipping and distribution patterns that are more efficient and take advantage of surplus capacity in non-peak seasons. We do expect a robust grain harvest this fall, with traffic moving slightly later than usual due to the floods earlier in the spring. In addition, while a spike in eastern grain shipments normally does occur, CSXT's animal feed business requires a year-round focus on maintaining a reliable CSXT pipeline from the field to feed mills

An important element in reliable rail service is forecasting future market demand. CSXT continues to improve its forecasting to ensure that adequate resources are available, both in the short term and longer range. The company regularly consults its customers to determine anticipated traffic on key corridors. CSXT is bullish on the long term growth in the rail industry and the company is investing accordingly.

### **CSXT's Performance: Safety and Service**

#### **Safety**

Safety continues to be the first priority of our Operating Team both in the prevention of employee injuries and train accidents. CSXT's year to date performance continues to remain strong with injuries reduced over 46 percent from 2004 and train accidents reduced 42 percent in that same comparison period.

Over the past two years, CSX has invested over \$14 million in new detector technology to proactively identify cars with mechanical defects that could cause a derailment. Additional technology investments have also been deployed to improve our process to identify and remove defects in our rail structure.

#### **Service**

Consistent execution of the ONE Plan, combined with expanded track capacity in key lanes, is producing significant gains in service reliability. Continued investment in key resources, including both locomotives and freight cars, also is supporting improved reliability. Staffing remains at the level needed to support the operating plan.

A surge in U.S. export coal demand has created strain on the entire coal supply chain: mines, load-outs, railroads, ports, and domestic consumers. To meet domestic and export demands for coal, CSXT recognizes that the entire coal supply chain must work together to improve the efficiency and capacity of the coal supply network. CSXT's efforts to address this significant increase in coal demand include devoting extensive management time and effort to running as efficiently as possible; placing over 5500 CSXT system coal cars in service ready to meet customer demands; devoting more locomotive power to coal service; implementing distributed power capabilities in key coal portions of our network; hiring new train crews for the coal-hauling divisions of CSXT; and encouraging mines, utilities, export piers, and overseas buyers to coordinate their respective needs as they ask CSXT to provide transportation service.

Service measurements in 2008 are largely comparable to last year and continue to provide our customers with a high level of service reliability. Our customer satisfaction ratings, as gauged by an independent third party, continue to favor CSX as a leading provider of rail transportation in North America.

Velocity: Train speed on the line of road is averaging 20.3 mph, roughly equivalent to the first 3 quarters of 2007.

Dwell: Overall terminal dwell has been favorable in 2008. For the first eight months of 2008 dwell has averaged 23.2 hours, a half hour year-over-year improvement.

Cars On Line: The total number of cars on the rail system is normally an indicator of network fluidity and operating efficiency. Our performance in 2008 is roughly equivalent to 2007 when you consider the short term acquisition of cars used to support the booming export coal market. CSX also has a significant number of cars in storage due to weak demand in several specific markets.

Building from this solid foundation, CSXT will continue to focus on plan execution and capacity investment.

### **CSXT's Action Plan – Total Service Integration**

CSXT continues to focus on the implementation of an initiative called Total Service Integration. TSI is focused on closely aligning customer needs and CSXT's operating capabilities. The goal is to further improve service reliability while increasing train efficiency and utilization of both CSXT-owned and privately held rail equipment. This involves working with existing customers to maximize operating efficiencies through adjustments, where possible, to target train sizes, track capacity, loading and unloading processes, and operating plans. In the first 18 months since implementation, TSI has helped create increased effective network capacity by improving average tons per train by over 5 percent on our large bulk trains.

### **Capital and Capital-Related Improvements**

Infrastructure improvements and other capacity enhancements are under way, including an increase in the total miles of rail replaced, track expansions, expansion of intermodal capacity, and continued investment in locomotives, rail cars, and technology. CSX's capital plans for 2008 are consistent with the company's three-year strategy to invest about \$5 billion in its business. Approximately 60 percent of that capital will be invested in the company's network (rail, ties, bridges, etc), another 20 percent will be invested in locomotives and freight cars, and the remaining 20 percent will be invested in strategic projects (primarily intermodal terminals and technology) to support long-term growth.

#### **Track/Terminal Capacity**

Although CSXT completed its major expansion of the Southeast Corridor route in 2007, track capacity programs continue to support long-term growth and reduce bottlenecks impacting fluidity across the network. Much of this year's programs are focused on improving overall capacity of our main coal routes.

While Intermodal opened its new terminal at Chambersburg, PA in the fall of 2007; expansions have taken place in 2008 at our Fairburn, GA, and Charlotte, NC facilities. Plans continue to move forward for additional terminal capacity in Central Florida, with permitting and state development review of our Winter Haven facility expected to be complete by the end of 2008.

On May 1, CSX joined Ohio Governor Strickland and Pacer Chairman Mike Uremovich to announce the National Gateway project. CSX is leading a 6-State coalition to build the National Gateway, a proposed

\$700 million public-private partnership to provide an efficient rail route linking Mid-Atlantic ports with the Midwest. CSX has committed to fund half the cost of this initiative and is seeking matching Federal and State transportation funds. The National Gateway will leverage terminal investments in Chambersburg and Charlotte with new investments in a major transfer yard in Northwest Ohio and proposed terminals in Pittsburgh and Columbus, as well as investments in double-stack clearances on our I-95 and B&O corridors. Project completion is targeted for 2015.

#### **Equipment – Locomotives**

The company took delivery of 100 new 4400-horse powered units in the first half of this year. An additional order for 50 locomotives was recently placed, with delivery expected in time for the Fall Peak season. All of these engines were equipped with Distributed Power capability. CSXT is taking the opportunity to use this feature to improve train size, fuel economy, and train handling. CSX will continue its long term strategy to upgrade its locomotive fleet in the face of short term volume weakness.

#### **Equipment – Rail Cars**

CSXT's freight car investments are focused on meeting customer equipment needs where long term business levels, both current and forecasted, justify such spending. CSXT is investing heavily on freight car repairs, leases, and purchases in 2008. CSXT has also responded to short term market demands, such as export coal, with shorter term leases not included in the overall capital spend above.

Car supply is expected to meet projected demand in all major markets. In fact, surpluses exist, some significant, due to improved railroad performance and diminished demand. At the end of August, CSX had 12,000 cars in storage, or nearly 15 percent of our system fleet.

#### **Employees**

The trainmen and engineer staffing is sized properly to meet projected Fall Peak demand. Many productivity initiatives under way have reduce the overall demand for train and engine service staffing. These initiatives include innovative labor agreements, technology, and the TSI initiative earlier discussed. CSXT is the most aggressive railroad in implementing RCO technologies in yard applications. Train delays associated with crew shortages have been very modest this year.

#### **It Starts with the Customer**

CSXT communicates with its customers on a regular basis through its many Sales & Marketing, Customer Service and Operations professionals. Communication also includes instruction in fully leveraging the ShipCSX web-based tools. CSXT continues to host customer forums to both provide hands-on training in electronic tools and gather valuable customer input. The CSX E-Business team will be holding another such forum in Chicago at the end of September. The company's web site, [www.csx.com](http://www.csx.com), provides information about service plans and maintenance curfews, and also features shipment status tracking.

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**Conclusion**

Longer-term, CSXT is participating in substantive discussions on public-private partnerships that can expand freight and passenger capacity and further leverage rail's inherent environmental advantages.

With CSXT operating safely, more reliably, and efficiently, and with the addition of capacity and other resources, the company expects to meet demand during the 2008 Fall Peak and beyond. I look forward to continuing to work productively with our customers, our feeder lines, other Class I railroads, and the STB to meet the challenges ahead.

Sincerely,

*Michael Ward*